

Sixty second summary

The Pensions Regulator's climate change strategy

The Pensions Regulator has published details of its *Climate change strategy*¹ which sets out its strategic response to climate change. It provides an insight on how TPR plans to help pension scheme trustees manage the risks and opportunities associated with climate change.

Background

TPR's climate change strategy is published against a backdrop of initiatives aimed at tackling climate change which all impact pension schemes:

- *The government's Green Finance Strategy which aims to encourage the financial system to support the required 'green' investments needed to help the UK achieve net zero by 2050. Success in this will rely on investors integrating climate and environmental considerations into their decision making.*
- *The Pension Schemes Act 2021 and proposed new supporting regulations which will see trustees of large schemes and all authorised master trusts and collective defined contribution schemes report in line with the TCFD recommendations.*
- *TPR's forthcoming consolidated Code of Practice specifically notes climate-related risks and opportunities.*
- *Existing requirements for pension schemes with over 100 members to document in their Statement of Investment Principles, their policies on stewardship and on environmental, social and governance considerations (including climate change) that they consider financially material.*
- *A number of large pension schemes setting ambitious net-zero targets and the overriding target set by the UK government to reach net-zero by 2050.*

The Climate change strategy provides some insight on TPR's plans to dovetail with the above developments providing support to pension scheme trustees in meeting upcoming regulatory requirements and more effectively managing the risks and opportunities associated with climate change. There is also a nod to wider environmental risks like biodiversity as a future direction of focus, suggesting we can expect to see the focus broaden over time.

Aims and objectives

TPR highlights 3 aims:

- Create better outcomes in later life for workplace savers by driving trustee action on the risks and opportunities from climate change
- Seek to influence debates around pensions and climate change.

¹ <https://www.thepensionsregulator.gov.uk/en/document-library/strategy-and-policy/climate-change-strategy>

- As a business, take part in the transition to net zero.

It also sets out specific objectives detailing actions they plan to take to deliver the above aims. These objectives include:

- *Ensuring schemes comply with the relevant disclosure requirements (SIP, implementation statement, TCFD disclosures – where applicable)*
- *Publishing guidance to support the new TCFD regulations*
- *Communications to promote the above*
- *Collaborating with all key stakeholders to influence debate, align plans and share insights*
- *As an organisation, publishing a climate adaptation plan and working towards reporting in line with TCFD recommendations and setting a 2030 net zero target*

Regulatory approach

TPR goes on to provide an overview of their regulatory approach which focusses on 4 areas as well as the tangible ‘outputs’ they plan to deliver to support each area, which we’ve summarised below.

Setting clear expectations

- *Guidance on the regulation from the Pension Scheme Act 2021 and how to incorporate climate change in Integrated Risk Management (IRM) with a view to supporting smaller schemes not in scope of the TCFD requirements.*
- *Sharing best practice TCFD reports (planned as part of the 2023 planned review of the regulations).*
- *A climate change management plan for superfunds, recognising those targeting a long-term run-off approach which will have significant exposure to the risks and opportunities arising from climate change.*
- *Climate change and stewardship modules in the new code of practice.*
- *Updated Trustee Toolkit to include new climate change content.*

Identifying risk early

- *A thematic review on pension scheme resilience to climate-related scenarios. This will involve reviewing schemes’ scenario analyses and publishing the findings.*
- *Publishing a review on implementation statements, noting the importance of stewardship activities.*

Driving compliance through supervision and enforcement

- *Carrying out training on climate change for TPR staff.*
- *Adding questions to the scheme return on web addresses of SIP, implementation statement and TCFD report and publish an index of SIP web addresses to identify any non-compliance.*

Working with others

Finally, TPR sets out a number of actions they will take to collaborate with key stakeholders and influence the debate. This includes plans to increase climate change related communications and participation in various groups and forums.

TPR’s Climate change strategy is a useful insight into what trustees can expect to see by way of regulatory support as they develop their approach to managing the risks and opportunities arising from climate change effectively. It underlines the increasing importance of factoring climate change into financial decisions that drive the security of members’ benefits. We expect many trustees’ approaches to climate change will evolve substantially over the short to medium term; trustees are advised to waste no time embedding climate risk in their risk management processes